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# Board Action Bulletin

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*Prepared by the Office of Public & Congressional Affairs*

## NCUA BOARD MEETING RESULTS FOR MARCH 17, 2011

**Alexandria, Va.** – The National Credit Union Administration Board convened its third open meeting in 2011 at agency headquarters and unanimously approved all agenda items presented, including: a proposed rule on interest rate risk policy; a proposed rule updating definitions of “net worth” and “equity ratio”; a final rule broadening the definition of “low-risk assets”; and final rules on corporate credit union delegations of authority and technical corrections.

In addition, the Board received updates on the health of the National Credit Union Share Insurance Fund and Temporary Corporate Credit Union Stabilization Fund.

### **Proposal addresses interest rate risk management**

The NCUA Board issued a proposed amendment to Part 741 that would require certain federally insured credit unions (FICUs) to have a written policy to address interest rate risk (IRR) management as well as an effective IRR program for successful asset liability management. The Board also approved draft guidance, as an appendix to the rule, to assist credit unions in meeting the proposed regulatory requirements.

To ensure credit unions are prepared for inevitable interest rate increases, NCUA believes certain FICUs need a written IRR policy that explicitly states their credit union’s IRR tolerance. An effective IRR program identifies, measures, monitors, and controls IRR and is an essential component of safe and sound credit union operations. Long-term assets require IRR management. The IRR proposed rule and guidance will assist credit unions in addressing this important area of operations.

The proposed rule does not apply to credit unions with less than \$10 million in assets. FICUs with assets between \$10 million and \$50 million must have a written policy if their total of first mortgage loans plus total investments longer than five years is equal to or greater than 100 percent of their net worth. All FICUs with assets over \$50 million must meet the written policy requirement. The IRR proposal was issued with a 60-day comment period.

### **Net worth and equity ratio proposal addresses statutory revisions**

The NCUA Board issued a proposal to amend the definition of “net worth” as it appears in NCUA’s Prompt Corrective Action (PCA) regulation and the definition of “equity ratio” as it appears in NCUA’s Requirements for Insurance regulation.

Issued with a 60-day comment period, these amendments would implement changes to the net worth and equity ratio definitions made by S. 4036, which President Obama signed into law on January 4, 2011 (P.L. 111-382). The proposed rule would also make technical changes in other regulations to ensure clarity and consistency in the use of the term “net worth,” as it relates to federally insured credit unions.

Section 2 of the new law amends §202(h)(2) of the Federal Credit Union Act by redefining the equity ratio for the National Credit Union Share Insurance Fund (the Fund). Under the amended definition, the equity ratio will be calculated “using the financial statements of the Fund alone, without any consolidation or combination with the financial statements of any other fund or entity.” The term “equity ratio” is defined in §741.4(b) of NCUA’s regulations and is used in several places throughout that section. The proposed rule would amend the definition of “equity ratio” in NCUA’s regulations to implement the change made by the new law.

The definition of “net worth,” for purposes of PCA, is found in §702.2(f) of NCUA’s regulations. Section 3 of the new law authorizes the NCUA Board, in its discretion and subject to any rules and regulations it promulgates, to include §208 assistance in the computation of a federally insured credit union’s net worth for PCA purposes. The proposed rule would allow for the inclusion of §208 assistance that contains minimum elements of equity in a credit union’s net worth for PCA purposes.

The proposed rule also makes a technical change to the definition of net worth that was not part of the new law. This proposed technical change would eliminate the double counting of net worth in a combination resulting in a bargain purchase gain.

### **Low-risk assets now include NCUA guaranteed debt instruments**

The NCUA Board issued a final rule permanently expanding the definition of “low-risk assets” to include debt instruments unconditionally guaranteed by NCUA.

Mirroring an interim final rule issued in October 2010, this final rule expands the definition of “low-risk assets” for Prompt Corrective Action (PCA) purposes, thereby extending a zero percent risk-weighting to debt instruments guaranteed by NCUA, and thus backed by the full faith and credit of the United States.

Including NCUA-guaranteed debt in the “low-risk assets” category extends zero risk-weighting to NCUA Guaranteed Notes (NGNs) offered to public investors, including credit unions.

Before the interim final rule, NGNs would have received 3 percent risk-weighting, possibly discouraging credit unions from investing in NGNs due to the adverse effect on their PCA net worth, even though NGNs are free of credit risk.

### **Corporate credit union delegations of authority modified**

The NCUA Board approved changes to authorities delegated to the Director of the Office of Corporate Credit Unions due to the recently revised corporate rule, Part 704. Regulatory provision changes and deletions required realignment of the delegations.

Specifically, the Board authorized corporate credit union delegation of authority changes that include:

- (1) Revise COR 9, COR 14, COR 15, COR 16, and COR 20 to amend the regulatory references pursuant to new Part 704.
- (2) Rescind delegated authority COR 17 related to Part II expanded authority. Part II expanded authority was eliminated in new Part 704.
- (3) Adopt COR 21 to provide the Office of Corporate Credit Union Director's delegated authority to approve/disapprove net economic value (NEV) action plans required for violations of Section 704.8. This authority was specifically granted to the Director in the previous rule.

### **Corporate technical corrections finalized**

The NCUA Board approved final "Corporate Credit Unions, Technical Corrections" to Part 704, which were issued November 18, 2010, as an interim final rule.

Unchanged from the interim final rule, which became effective January 18, 2011, the final rule corrects the following: (1) definition of collateralized debt obligation (CDO) in §704.2; (2) list of investments exempt from the single obligor limits and credit rating requirements in §704.6; and (3) date contained in Model Form H of Appendix A to Part 704.

### **NCUSIF projects 1.29 percent equity ratio**

The National Credit Union Share Insurance Fund (NCUSIF) equity ratio was 1.29 percent on February 28, 2011, based on projected collections in insured shares as of December 31, 2010. NCUSIF ended the month with a \$1.19 billion reserve balance. NCUA will mail invoices related to collections during March, with payments due by April 15, 2011.

The NCUSIF reported net income of \$7.6 million for February 2011. Three credit unions failed in February – all liquidations. As of February 28, the cost of failures for 2011 totaled \$34.1 million. Year-to-date, NCUSIF insurance loss reserve has not increased.

There were 360 federally insured credit unions designated CAMEL code 4 or 5 as of February 28, with assets of \$42.5 billion and shares of \$37.7 billion. In addition, 1,803 CAMEL code 3 credit unions had assets of \$151.5 billion and shares of \$133.9 billion. Overall, 21.21 percent of all credit union assets were in CAMEL code 3, 4 or 5 credit unions.

The Temporary Corporate Credit Union Stabilization Fund (TCCUSF) total liabilities and net position was \$385 million at February 28.

Financial data reported for both the Share Insurance Fund and the Temporary Corporate Credit Union Stabilization Fund are preliminary and unaudited.

**Board votes are unanimous unless otherwise indicated. All Board Action Memorandums are available online at [www.ncua.gov](http://www.ncua.gov) under *Agency Leadership/NCUA Board and Actions/Draft Board Actions*. NCUA rule changes are posted online at [www.ncua.gov](http://www.ncua.gov) under *Resources/Regulations, Legal Opinions and Laws*.**